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ABSTRACT

The Community Reinvestment Act (CRA) is designed to encourage banks and thrifts to meet the financial credit and service needs of low- and moderate-income neighborhoods, requiring that lenders use their private-sector resources to meet the financing needs of all communities in which lenders conduct business. This brief outlines several types of activities for which lenders may receive CRA credit and identifies important considerations for communities seeking to access CRA resources for development initiatives. Despite the CRA's historical emphasis on housing, and to a lesser extent business development, this brief focuses more extensively on other uses of CRA of benefit to children and families. The brief presents background information on the CRA and the types of CRA resources for use with community development initiatives: loans, grants, in-kind donations, equity equivalent investments, and community development services. Included are examples of CRA commitments that have benefited children, families, and communities. Considerations for organizations thinking about integrating CRA resources into their financing strategies are also noted. Finally, the brief discusses strategic steps for securing CRA commitments. (Lists additional information resources. Contains 22 endnotes.) (KB)

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Using the Community Reinvestment Act

To Help Finance Initiatives for Children, Families and Communities

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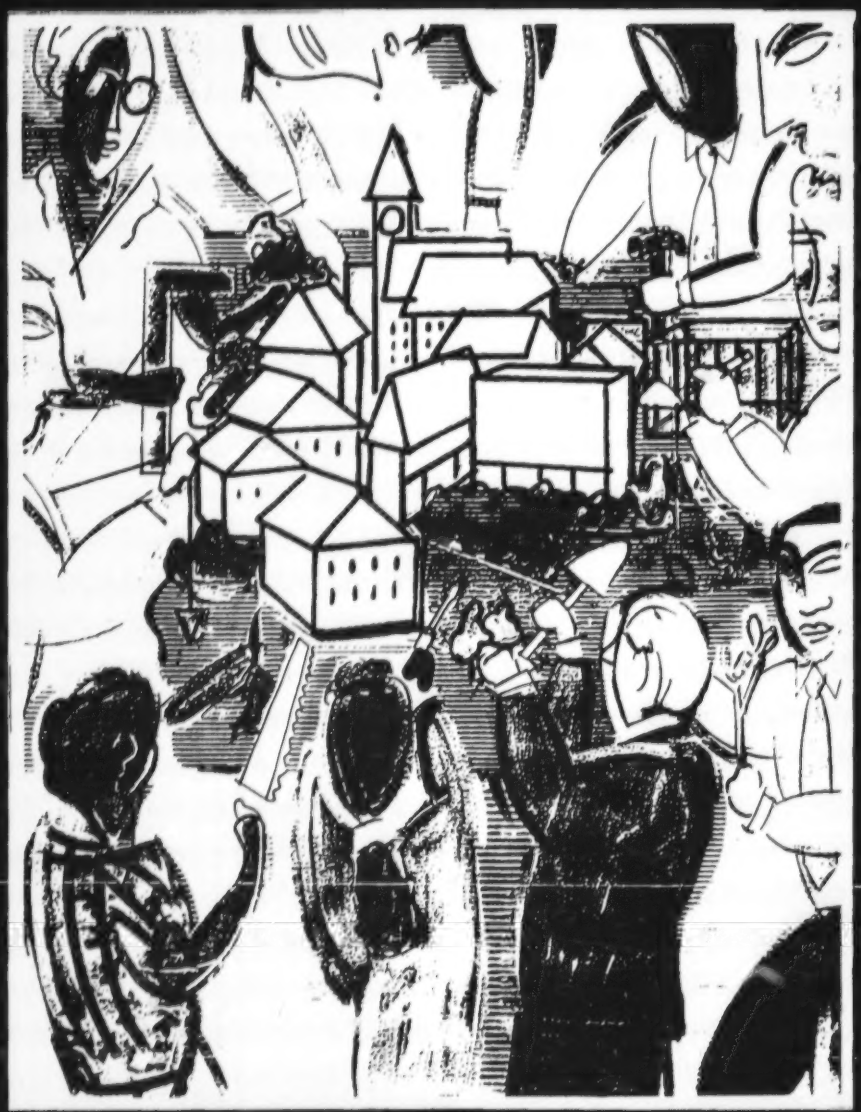

FINANCING STRATEGY BRIEF APRIL 2002

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The FINANCE PROJECT

Using the Community Reinvestment Act

To Help Finance Initiatives for Children, Families and Communities

By Debbie Gruenstein

Introduction

The Community Reinvestment Act (CRA) is designed to encourage banks and thrifts to meet the financial credit and service needs of low- and moderate-income neighborhoods. Unlike most government loan or grant programs, the CRA does not appropriate public funds nor does it require potential beneficiaries to submit formal applications to the government. Rather, the law simply requires that lenders use their private-sector resources to meet the financing needs of all communities in which lenders conduct business, consistent with safe and sound banking practices.

The CRA requires periodic evaluations of each depository institution's lending, investment and service activities in low- and moderate-income (LMI) neighborhoods.[1] Federal regulators take performance on these evaluations into account when considering lenders' applications for expansion of services, mergers and acquisitions. Consequently, the CRA provides a powerful incentive for lenders to invest in distressed neighborhoods and is largely credited for the extension of many millions of dollars in loans, investments and services to low- and moderate-income households and neighborhoods since its passage.[2]

Until the mid-1990s, CRA exams emphasized housing-related lending and investments to a much greater extent than other types of community development activities. As a result, banks focused on home purchase lending to LMI borrowers and in LMI

neighborhoods to meet their CRA obligations. However, in 1995, federal banking agencies revised the CRA regulations, requiring banks to start collecting and publishing small business and community development lending data. Consequently, CRA exams now increasingly emphasize the small business and, to a lesser extent, other non-housing community development activities of lenders. Under current CRA regulations, "community development" encompasses:

- affordable housing, including multifamily rental housing, for low- or moderate-income individuals;
- community services targeted to low- or moderate-income individuals;
- activities that promote economic development by financing small businesses or farms;[3] and
- activities that revitalize or stabilize low- or moderate-income geographies.

Because of the breadth of potential purposes for which CRA resources can be used, CRA-related commitments from financial institutions should be among the resources that non-profit and public-sector leaders and institutions consider when developing financing strategies for community initiatives.

This brief outlines several types of activities for which lenders may receive CRA credit and identifies important considerations for communities seeking to access CRA resources for community development initiatives. Despite the CRA's historical emphasis on housing and, to a lesser extent, business development, this brief focuses more extensively on other uses of CRA of benefit to children and families.

For community leaders, policymakers, and program developers working on children and family issues, CRA resources can be used for a broad range of community development lending, investment, and service activities beyond housing and business development. Possibilities include:

- establishment of Individual Development Accounts (IDAs);
- provision of child care facilities;
- creation and/or expansion of health care facilities serving low- and moderate-income families;
- efforts to support local schools, such as special mortgage financing for teachers and special savings accounts for students who stay in school;
- improvements in the energy efficiency of the homes and appliances of LMI families;
- financial literacy and other services targeted at farm workers, immigrants and refugees, among other constituencies.

Background: What is the Community Reinvestment Act?

Before the mid-1970s, many banks practiced mortgage "redlining." Redlining refers to the practice of denying loan applications based on *characteristics of the neighborhood* in which the property is located, rather than on the likelihood that the loan applicant will be able to meet loan payments. This practice can result in the rapid decline of targeted neighborhoods. Since newcomers cannot access the necessary financing to purchase homes in redlined areas, market prices in those areas plummet and can leave current residents unable to sell their homes for more than their outstanding mortgage amount. The term 'redlining' comes from the red lines that bankers drew on city maps around neighborhoods within which they would refuse to lend.

In response to these practices, Congress passed two pieces of legislation. The Home Mortgage Disclosure Act (HMDA), passed in 1975, requires lenders to disclose information about mortgage applications and their dispositions. The Community Reinvestment Act (CRA), passed in 1977, requires regulated financial institutions to meet the needs of their entire communities, including the needs of low- and moderate-income neighborhoods and residents.[4] Together, these two pieces of legislation have helped communities determine whether financial institutions effectively serve their entire area through their lending, investment and service activities.

The Community Reinvestment Act states that "regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered." To enforce this obligation, the CRA established a regulatory regime to evaluate the lending, investment, and service patterns of lenders, paying particular attention to their activities in traditionally underserved neighborhoods.[5] The CRA does *not* require that lenders pursue initiatives that could jeopardize their safety and soundness. CRA activities must be consistent with prudent banking practices, over both the short- and long-term, so that banks do not put their financial sustainability at risk. But there are many non-traditional lines of business that lenders can pursue and many new markets in which they can participate that promote community development while ensuring safe and sound operations.[6]

Under the CRA, examiners from four federal regulatory agencies assess and "grade" a lending institution's activities in LMI neighborhoods every two years for large banks and less frequently for smaller banks.[7] In 1995, the regulatory agencies revised CRA regulations, outlining more explicitly how these agencies would assess lenders' activities in LMI neighborhoods.[8] Specifically, the 1995 revisions mandate that regulators rely on the following three tests when evaluating lending institutions' overall CRA performance:

- *The lending test*—The lending test measures the number, volume, and percent of home and small business loans made to LMI borrowers and neighborhoods. In addition, the lending test considers

the number, volume and innovativeness of community development loans, as defined by the CRA regulations.

- *The investment test*—The investment test considers the number of investments, their creativity and their responsiveness to the needs of low- and moderate-income communities. Investments are generally equity shares or grants.
- *The service test*—Lenders are evaluated on their branch network and other ways of delivering banking services, such as ATM locations and availability of online banking. Particular attention is paid to ways in which their services meet the needs of LMI communities and households. In addition, lenders are rated on the extent and innovation of other community development services within their service areas and the surrounding regions and/or states.

Large lenders, defined as institutions with more than $250 million in assets, receive ratings of "outstanding", "satisfactory," "needs to improve" or "substantial non-compliance" for each of the three tests.[9] Small banks are evaluated based only on the lending test. Wholesale and limited purpose banks are evaluated on the number, volume, innovativeness and responsiveness of their community development loans, investments, and services, since these institutions do not provide consumer loans or mortgages. These scores, in conjunction with any evidence of discriminatory or illegal practices, are used to determine a bank's overall CRA rating during examinations.[10]

There are two main consequences of CRA ratings. First, a poor CRA rating can result in a regulatory agency delaying or denying a lender's application to merge, open branches, or expand services, or approving the application contingent upon improvements in CRA activity. Second, both positive and negative CRA ratings can have powerful impacts on a lender's public image, its relationships with particular ethnic communities or neighborhoods, and consequently, its long-term business performance. As a result of these dual incentives, banks and thrifts have markedly increased their home lending and have made more investments in low- and moderate-income communities.

The remainder of this brief outlines a range of CRA resources such as grants, loans and technical assistance, that are being used for community development initiatives. We include examples of CRA commitments that have benefited children, families and communities, as well as considerations for organizations thinking about integrating CRA resources into their financing strategy. We also discuss strategic steps for securing CRA commitments. A list of additional resources can be found at the end of this brief.

Types of CRA Resources

Community development initiatives designed to meet the needs of LMI families and children can make use of the same range of CRA resources traditionally targeted to housing or small business

initiatives. Below is a description of several types of financial and technical assistance that community leaders, policy makers and program developers may be able to access through CRA commitments from financial institutions. The resources described here do not constitute an exhaustive list of potential CRA resources, but rather provide a starting point for considering the CRA as part of a larger financing strategy.[11]

Loans

The most obvious type of CRA resource available to community initiatives is loans. Although lenders have traditionally satisfied the "lending test" through mortgage and small business loans, they can also receive CRA credit for loans to organizations and financial intermediaries dedicated to other types of community development. CRA loans can take many forms and may be market-rate, below-market rate, or have unconventional terms or underwriting criteria.[12]

DIRECT LOANS

Leaders of community health, recreation, social services, education and child care organizations or initiatives should consider the CRA when they need to create or expand their facilities or services and have a stable income stream that can readily cover loan payments. For instance, a community development organization may have an ongoing contract with a state agency that includes substantial and frequent payments. In these cases, the organization may be able to access and successfully finance loans.

Many financial institutions also offer non-profit organizations bridge loans or working capital loans as part of their CRA activities. A bridge loan is a loan that is secured by funds from a contract or grant that has been signed but for which the money has not been received. Working capital loans are similar to bridge loans though, rather than being secured by signed grants or contracts, these loans are secured by other types of evidence that adequate funds will be available in the future to repay the loan. Accessing CRA commitments for bridge loans and working capital loans is most likely to be successful when the lender has worked with the borrower in the past and has confidence in the borrower's leadership.

LENDING FOR BUSINESS DEVELOPMENT

In conjunction with Urban Edge Housing Corporation and the Boston Local Development Corporation, Boston Private Bank and Trust Co. provided a $100,000 loan to a minority-owned franchise of the Athlete's Foot chain in Roxbury. The presence of the chain in this historically low-income and minority neighborhood has improved the image of Egleston Square, and the store provides local jobs.

Contact: Urban Edge Housing Corporation, (617) 522.5515.

LENDING FOR HEALTH CARE FACILITIES

Several years ago the New York State Department of Health's Adult Day-Health Care Programs for Persons with AIDS/HIV needed financing for construction of nine day-treatment centers. Construction loans are often difficult to secure due to the speculative nature of the collateral. However, because the centers would be licensed by the state's Department of Health, their operations would be eligible for Medicaid reimbursement, a substantial and stable income stream to support long-term sustainability. Their Medicaid eligibility helped the centers secure $23 million in construction financing from Chase Community Development Corporation, a subsidiary of Chase Manhattan Bank. This short-term financing was complemented with long-term financing from a state financing authority. Chase received CRA credit for engaging in the riskier and more difficult short-term financing activity.

Contact: Lewis Jones, Chase Community Development Corporation, (212) 622.3607.

LOANS THROUGH INTERMEDIARIES

In the early years of the CRA, lenders primarily received CRA credit through loans to small businesses and community organizations in LMI neighborhoods and through direct loans to LMI families. Over time, this model has been complemented by another, in which financial institutions lend to intermediaries. Community development intermediaries play a useful role by pooling resources from public and private sources and developing loans, investments or services that are specialized to meet community development needs. By linking the resources of multiple investors to the specific needs of LMI communities, community development intermediaries achieve economies of scale, thereby increasing the efficiency of financial markets. Banks can receive CRA credit for extending market-rate or below-market-rate loans to intermediaries, such as Local Initiatives Support Corporation (LISC), the Enterprise Foundation, community development financial institutions, and community or facility loan funds.

Considerations:

* By creating or enhancing relationships with particular communities, CRA loans can offer strategic opportunities for lenders to tap into new markets. Community organizations seeking CRA loan commitments should emphasize their ability to provide outreach and financial education to target populations with whom they work, such as specific ethnic or immigrant groups.
* Negotiating flexible underwriting criteria can be a valuable CRA strategy for community development organizations seeking affordable financing. For example, when interest rates are high, servicing even below-market rate loans may be quite costly. Seeking flexible terms such as a lengthened amortization period on a CRA loan may be a sensible way for organizations to avoid taking on too much debt. Or, if an organization is asset-constrained but has a relatively high cash flow, securing a commitment for a low down payment loan may be possible.
* Community organizations should not be discouraged from seeking CRA loan commitments because of reporting requirements. Under the CRA Sunshine provision, organizations may be required to disclose CRA loans they receive that are in excess of $50,000.[13] This provision mandates both initial disclosure and annual reporting on how organizations are using CRA funds. However, the reporting requirements are not particularly burdensome. For example, IRS Form 990, a tax form that is generally filed by nonprofits, usually fulfills the annual reporting requirement.[14]

LENDING THROUGH INTERMEDIARIES FOR CHILD CARE

The Child Care Development Project of Maine's Coastal Enterprises, Inc. (CEI) was organized 10 years ago to support the provision of child care in rural Maine. Understanding that child care is both a major expense for most LMI families and an essential element of a strong local economy, the project offers the following: technical assistance to in-home and center-based child care providers; linkages between providers serving low-income families and social service agencies; and market-rate loans to new and existing licensed child care providers. Over the life of the program, 105 loans have met the needs of 97 providers, with a slight majority being home-based providers. Each loan must result in either an increase in slots for low-income families or a program enhancement. Loans can cover real estate purchases, building construction, renovations or improvements, toy purchases and working capital. In addition to receiving support from the Small Business Administration and the Department of Agriculture, the loan fund is supported with loans from private financial institutions, which receive CRA lending credit.

Contact: Cindy Stewart, Coastal Enterprises, Inc., (207) 772.5256.

Grants, In-Kind Donations, and Equity Equivalent Investments

Community development projects in need of grants or equipment should consider seeking a CRA commitment. As mentioned previously, CRA ratings are based not only on lending activity, but also on lenders' investments in community development projects. Specifically, the investment test is based on the dollar amount of qualifying community development investments, the innovativeness or complexity of the investments, the responsiveness of the investments to community needs, and the degree to which the lender is filling a credit gap.[15] Lenders often use grants, in-kind donations, and equity arrangements to meet their investment obligations.

DIRECT GRANTS

Many lenders see grants as a strategic way to meet their CRA investment obligations.

Although lenders do not profit directly from grants, grants have the potential to improve lenders' long-term business prospects. Grants may increase the capabilities and capacity of grantees, allowing them to more easily access loans in the future, and may create a closer relationship between a lender and a particular community or target population. As a result, grants may lead to long-term lending business from both an organization and its constituency. In addition, the relationships built between the grantees and grantors can give the lender a better understanding of community development needs more generally, providing the lender with innovative and responsive ways to pursue CRA credit in the future.

LEVERAGING AHP FUNDS FOR HOME REPAIRS

Boston Private Bank and Trust Co. (BPBT) tapped Federal Home Loan Bank programs to provide $225,000 in grants for the Boston Healthy Homes Improvement Program. These funds will be used for home repairs for 30 very low-income families with children diagnosed with lead poisoning, asthma or other home-related conditions or injuries. The bank can receive CRA credit for accessing and distributing these grants.

Contact: Esther Schlorholtz, Boston Private Bank and Trust Co., (617) 912.1900.

GRANTS FROM FHLB MEMBERS

In addition to direct grants from lenders, community leaders, policy makers, and program developers should consider asking members of the Federal Home Loan Bank System to access FHLB program funds. Financial institutions that are members of the Federal Home Loan Bank System are eligible to compete for Affordable Housing Program (AHP) resources, which are distributed by the system's regional banks. Once AHP funds are accessed, lenders

GRANTS FOR CHILD CARE

Cascadia Revolving Fund, a community development financial institution operating in Washington and Oregon, requested and secured a $150,000 grant from Wells Fargo's Washington CRA division to support technical assistance to child care providers. The funds are used to provide technical assistance to the directors of child care centers who wish to establish, expand or improve their facilities and services. In the first five months of 2001, 27 center directors were trained through this initiative. Because of the increased capacity of the directors, some of the centers went on to access loans from Wells Fargo for a variety of purposes, such as working capital, recreation equipment, and facilities upgrades. In fact, Wells Fargo extended $564,000 in conventional small business loans to these childcare centers. Wells Fargo received CRA credit both from the extension of grants and for the subsequent loans to these centers.

Contact: Shaw Canale, Cascadia Revolving Fund: (206) 447.9226.

can extend grants for community development efforts, for which they can receive CRA credit. [16]

IN-KIND DONATIONS

In addition to monetary grants, community initiatives can benefit from, and lenders can receive CRA credit for, in-kind contributions. For example, lenders may receive CRA credit for donating computer hardware, software, photocopiers, and filing cabinets. As a result, community programs in need of computer equipment or other supplies and materials should consider seeking in-kind donation arrangements from regulated lenders. [17]

PROMOTING FINANCIAL INDEPENDENCE WITH IN-KIND CONTRIBUTIONS

As one of its CRA activities, Bank One has organized an innovative arrangement that helps parents who are transitioning off welfare attain cars and access the mainstream financial system. In the "Wheels-to-Work" program, car ownership acts as an incentive for demonstrating a commitment to employment and financial responsibility. The bank developed a program in which volunteers donate dependable cars to nonprofit organizations. These cars are then loaned to parents leaving welfare, in exchange for regular attendance at financial literacy training sessions. If, over time, a beneficiary remains employed, and budgets for car insurance and maintenance, he or she will secure the title to the car. Bank One also facilitates hardware and software donations to non-profits, which in turn give these resources to lower income families to provide them with access to educational, banking, and other online resources.

Contact: Kathleen Houck, Bank One, kathleen_houck@bankone.com.

EQUITY EQUIVALENT INVESTMENTS

Equity equivalent investments, also known as "EQ2s," are relatively new financial instruments for which lenders can receive CRA credit. While for-profit businesses can issue shares of ownership in the business (also known as "equity" or "stock") to raise long-term capital, nonprofits generally have to rely on debt-financing (i.e., financing with loans). Equity equivalent investments are structured like loans, but are so deeply subordinated (i.e., EQ2 investors rank below other creditors with regard to claims on assets or earnings) that they have equity-like risk characteristics. [18] More specifically, to qualify as an equity equivalent investment, a loan must meet the following six criteria: 1) it is carried as an investment (as opposed to an asset) on the investor's balance sheet; 2) it is a general obligation not secured by the borrower's assets; 3) it is fully subordinate to all other debt; 4) it can not be recalled by the investor unless the borrower ceases normal operations; 5) its interest rate is not tied to the borrower's income; and 6) it has a an indefinite or "rolling term." The most attractive aspects of EQ2 investments for borrowers is that they generally have low interest rates (typically between two and four percent) and no fixed repayment deadlines.

EQ2 arrangements can be beneficial both to borrowers and banks. For borrowers, EQ2 investments provide long-term capital and an opportunity to diversify their capital base. Since most nonprofits cannot issue stock, the EQ2 instrument can be a low-cost way to balance their funding portfolio, rather than relying primarily on grants and/or retained earnings, and finance long-term projects. EQ2 arrangements are beneficial to financial institutions because of how they are treated under the CRA. First, lenders who use EQ2 instruments to invest in community

development intermediaries may elect to receive credit under either the lending or the investment tests during CRA examinations. In some circumstances, lenders may receive credit under both tests.[19] Second, because the investments usually remain on the borrower's books for at least 10 years, the bank may receive annual CRA credit for the duration of the investment.[20]

Considerations:

- Community organizations are more likely to secure CRA grants if the grants serve as part of, not a substitute for, a long-term funding strategy. That is, CRA resources should be part of a strategy to diversify an organization's funding portfolio and/or develop new funding opportunities. For example, organizations that plan to use grants as seed money for developing a self-sustaining revenue generator (such as a revolving loan fund) or to increase organizational capacity that enables it to access other financial resources in the future are more attractive CRA partners for lenders than organizations lacking a strategic plan for using the grants.
- Though lenders generally do not receive interest or fee income from CRA grants or in-kind donations, they may be willing to provide them if they see these activities as strategic investments. Community leaders should highlight that extending grants for community development initiatives not only can help lenders meet their current CRA obligations but can generate long-term lending opportunities in particular neighborhoods or to a particular target population. In addition, tax credits may provide addition incentives for lenders to make CRA investments.[21]
- Under the CRA Sunshine provision, organizations may be required to disclose CRA grants in excess of $10,000. However, as is the case for loans, the annual reporting requirements for grants are not very onerous and can usually be fulfilled by submitting standard tax forms.
- Equity equivalent investments provide an innovative way for nonprofit community lenders to diversify their permanent capital base and, because they are generally long-term, finance facilities. However, organizations seeking EQ2 arrangements must invest the time into understanding the unique characteristics of these nontraditional instruments.

Community Development Services

Community leaders, policy makers and program developers should also consider seeking CRA commitments when in need of community development services. In addition to traditional CRA services (such as opening branches in LMI neighborhoods, hiring bilingual staff and producing bilingual publications, and outreach to LMI neighborhoods and immigrant communities) lenders can receive CRA credit by providing community development services such as financial literacy training and technical assistance, or by serving on a community development organization's board. Community development

services can enhance the internal capacity of a community development organization. They can also improve LMI households' understanding of, access to, and comfort level with the mainstream financial market.

FINANCIAL LITERACY TRAINING

A range of recent papers and books points out the wide discrepancy between assets and savings among higher and lower income Americans and the added financial challenges that "unbanked" families face.[22] "Unbanked" households, those with no links to the mainstream financial markets, pay high fees to conduct basic transactions and may be more vulnerable to predatory lending. Moreover, they are less likely than those connected to financial markets to have savings to cover education, retirement, or health expenses. Financial literacy efforts can help address these gaps by educating families on their own financial position and ways to improve it by using banking and financial services. Such programs might include education on credit history and credit reporting, personal finance and budgeting, credit and debt management, and homeownership.

Lenders are eligible for CRA credit for financial literacy programs targeted at LMI households. Some lenders provide these financial literacy programs directly, while others pay non-profit organizations with close ties to particular target populations to provide the education or outreach. Often, lenders engage in financial literacy programs hoping that they will increase business from and improve the loan performance of those served by the program.

TECHNICAL ASSISTANCE

Technical assistance can be extremely important for staff capacity-building, internal systems development and, consequently, the long-term sustainability of community initiatives. However, it is often difficult to fund since investments in technical assistance may not result in immediately appreciable benefits, compared to investments in direct services. Nevertheless, financial institutions have two important incentives for financing technical assistance. First, lenders can receive CRA credit for technical assistance activities

FINANCIAL TRAINING AND SERVICES FOR WELFARE RECIPIENTS

Members of the Chicago CRA Coalition's financial services task force brought Chicago Commons' Employment and Training Center (ETC), a welfare-to-work training organization, together with LaSalle Bank, a local lender with an ongoing financial literacy program. The bank and ETC tailored a training program to the needs of welfare participants and helped 16 of the first class's 20 participants open no-fee savings accounts at the bank. The accounts helped the women save on the high fees charged by check-cashing firms, and the training program helped them envision a successful future. For banks, these partnerships "tap into a new customer base, create goodwill, and [generate] federal Community Reinvestment Act credit points."[1]

1. Financial Education Program Leads Low-income Women to Open Savings and Checking Accounts," *Illinois Welfare News*, January, 2000, at www.povertylaw.org/iwn/jan2000/jan2000_7.htm.

Contact: Jenny Wittner, Chicago Commons Employment and Training Center, (773) 772.0900.

under the service test. Second, as is true with grants and financial literacy training, technical assistance can be a strategic investment for lenders. Effective technical assistance enhances an organization's capabilities and may increase its capacity for and access to traditional credit in the future. Therefore, providing technical assistance has the potential to lead to long-term business opportunities for the lender. Recognizing both of these incentives, lenders often provide community development-related technical assistance.

TECHNICAL ASSISTANCE FOR CHILD CARE

The public-sector San Francisco Child Care Facility Fund is managed by the Low Income Housing Fund, a longstanding housing and community development intermediary. Currently, LIHF uses the fund to provide small grants to family child care providers to meet licensing requirements, to expand capacity, and for zero-interest predevelopment loans and loan guarantees to non-profit child care centers. In addition, the CCFF, in conjunction with the University of San Francisco, will offer business and management technical assistance to family and center-based care staff. Initiated by the San Francisco Board of Supervisors, the fund receives $200,000 in general funds from the city each year. These funds are generated through developer fees from new hotel and office development, as well as foundation grants and CRA-related investments from Providian Financial and Sumitomo Bank.

Contact: September Jarrett, San Francisco Child Care Facilities Fund, (415) 772.9094.

BOARD PARTICIPATION

Community organizations should consider seeking lenders to serve on their boards. Serving on a community development organization's board of directors can increase lenders' awareness of and sensitivity to the needs of low-income households and communities. This can be beneficial for both communities and lenders, increasing access to credit for community residents and business opportunities for lenders. More generally, having lenders serve on a community development organization's board may improve its constituency's access to, insights on, and connections with the mainstream financial community.

BOARD PARTICIPATION

Following in the tradition of Boston's longtime financial institution leaders, many of which have been consolidated into firms based outside the city, the leadership of Boston Private Bank and Trust Co. is heavily represented among the board members of Boston's leading community development organizations. For instance, the CRA officer or CEO of the bank serves on the following boards: The Ten Point Coalition; Massachusetts Community Banking Council; Metropolitan Boston Housing Partnership; Dorchester Bay Economic Development Corporation; Citizens' Housing & Planning Association; Rogerson House Communities; Massachusetts Association of CDC Small Property Working Group; and Massachusetts Senior Action Council. The bank receives CRA credit for serving on these boards.

Contact: Esther Schlorholtz, Boston Private Bank and Trust Co., (617) 912.1900.

Considerations:

- Although community development services are not cash transfers and, therefore, cannot directly fill a financing gap, seeking a CRA commitment for community development services can still be part of a long-term financing strategy. For example, community development services such as technical assistance can add to an initiative's financial sustainability in the long run by enhancing the quality, efficiency, and organizational capacity of a community development initiative.

- Though small lenders are evaluated only on the lending test during CRA examinations, providing community development services can still help small lenders earn "Outstanding" ratings overall. In addition, service activities such as serving on a board or providing targeted technical assistance to an organization offer low-cost ways for large lenders to receive CRA service credit.
- CRA community development services such as board participation or technical assistance can help build relationships between communities and lenders. This may provide insights for lenders into new business opportunities in underserved communities and provide communities with a greater understanding of and access to financial markets.

Integrating CRA Resources

When analyzing whether CRA resources may be an appropriate strategy to help finance their initiative, community development organizations should consider integrating complementary types of CRA activities. For example, often a financial institution's CRA staff will provide targeted loans or special banking services, while its affiliated foundation will provide grants. Similarly, a lender may be inclined to provide financial literacy training to complement a CRA loan agreement. The financial institution receives CRA credit for the overall package of resources devoted to community reinvestment activities, providing an opportunity for communities to leverage more than one type of CRA resource. Considering how different types of CRA activities may be complementary, as opposed to analyzing the appropriateness of each resource type in isolation, should be part of developing a financing strategy. While different types of CRA commitments might have to be secured from more than one lender or lender affiliates, the efficacy of community initiatives can often be enhanced by leveraging and integrating more than one type of CRA resource.

First Steps for Developing a Strategic CRA Plan

Community leaders, policy makers, and program developers interested in using the CRA as part of their community development financing strategy need to invest time and resources into developing a plan for accessing and using CRA resources. First steps include developing an thorough understanding of the CRA, analyzing area financial institutions, and identifying sources of influence.

Develop an Understanding of CRA

Knowing the obligations of lenders under the CRA and understanding how the CRA works in practice takes time and resources but is critical to taking advantage of CRA resources.

MATCHING SAVINGS IN INDIVIDUAL DEVELOPMENT ACCOUNTS

Covenant Community Capital Corporation, based in Houston, Texas, operates an Individual Development Account (IDA) initiative in collaboration with Compass Bank and other funders. Through Covenant's IDA program, families who commit to regular savings have their savings matched 2:1 by public and private resources. The match provides a strong savings incentive, akin to the matches larger employers often offer to those who contribute to their retirement accounts. In addition, the initiative provides program participants with a series of financial education classes, such as homeownership preparation classes. Compass Bank's foundation contributes a sizeable grant to help cover the administrative costs of running the program, while the bank itself provides no-fee interest-bearing savings accounts and accounting services for program participants. The bank receives CRA investment and service credit for these activities.

Contact: Reagan Swank, Covenant Community Capital Corporation: (713) 223.1864.

- Review the descriptions of the CRA tests and determine the link between your needs and potential CRA resources.
- Determine whether a local CRA advocacy organization exists; if so, develop a relationship with it and seek information, not only on CRA rules and regulations, but also on the CRA environment in your area. One excellent source of information is the National Community Reinvestment Coalition (NCRC) at (202) 628.8866.
- Contact other leaders and organizations in your organization's substantive area who have accessed (or tried to access) CRA resources from lenders in the past. Ask for their advice and use their successes and/or failures to inform your CRA strategy.
- Contact CRA regulators about innovative projects that you think are CRA-eligible. Because regulators have some discretion over whether an initiative will receive CRA-credit, getting their support for an unconventional project before approaching lenders can make your project more attractive.

Research Area Lenders

Those considering seeking CRA commitments should analyze how their initiatives may or may not be attractive to area lenders. Different lenders look for different things in CRA projects. Consequently, when deciding which lenders to approach, those seeking CRA resources should consider doing the following:

- Research the CRA records, lending patterns, and examination schedules of financial institutions based in your city or state and those that serve your area. Determine whether there are lenders that tend to concentrate their CRA activities in your policy area (e.g. child care, economic development or health care) or that are likely to extend the type of CRA resource that you are looking for (e.g., grants, technical assistance, or loans).
- Speak to CRA officers at local banks, CRA advocacy groups (such as NCRC) and local community development financial institutions (CDFIs). These are great resources to help understand lender characteristics that may not be apparent from CRA records. For example, does a particular lender view the CRA simply as an obligation or does it view the CRA as an important business strategy? Which lenders prefer to be the only financial institution involved in an initiative and which prefer to have their resources leveraged with other lenders? Which lenders tend to engage in very simple or very sophisticated CRA projects? How risk averse are the various lenders? Knowing the specific nature of lenders' perceptions of the CRA is critical to targeting specific lenders and framing your initiative appropriately to them.
- Research the financial conditions of area lenders. External factors, such as regional economic conditions, as well as internal factors, such as the lender's financial performance and stability, are considered by regulators during CRA evaluations. Lenders that are in strong financial condition have a greater capacity to engage in CRA activities and, consequently, are expected to engage in more CRA activities than those in poor financial conditions.

BANK INITIATES CRA PLANS TO MEET COMMUNITY NEEDS

Providian Financial, a national limited-purpose credit card bank chartered in New Hampshire, was very pro-active in developing its CRA initiative about five years ago. Relying on contacts in the state, Providian staff conducted a needs assessment and developed an options memo for the bank's leadership that included 10 different CRA focus options. The selection of child care as the bank's CRA emphasis was driven by the needs of LMI residents of New Hampshire and the opportunity to make a significant contribution to an under-recognized and under-financed area that was important to working parents, educators and the business community. As the lead element of Providian's $5 million dollar child care commitment to New Hampshire, the bank forged a partnership with the New Hampshire Community Loan Fund, a certified community development financial institution, to create a child care facilities fund and technical assistance resource. To date, the bank has made grants to child care advocacy organizations, conducted economic analysis of the child care industry in New Hampshire, and made direct grants to child care providers to improve management and building capacity. Most recently, Providian created a national child care financing project with a $9.5 million equity equivalent investment in the National Community Capital Association and a companion grant program of over $2 million.

Contact: Kathy Bogle-Shields, Providian Financial, (603) 227.8203.

- Determine if there are lenders in your area that are under-performing in their CRA obligations or are planning mergers or acquisitions. These lenders often need projects for their CRA portfolio. In addition, review the evaluations of limited-purpose lenders, such as credit card companies and internet banks. Because these types of lenders generally have little mortgage activity, they often seek innovative CRA initiatives outside the housing sector.
- Identify lenders who have taken the lead on CRA initiatives. Many lenders have sophisticated CRA divisions with staff devoted to developing CRA projects. Therefore, general outreach regarding your organizational mission and goals may spark their interest in developing a CRA strategy with you.

Identifying Your Sources of Influence

Once you understand both the general rules and regulations of the CRA and have determined the unique characteristics of lenders in your area, you should identify your sources of influence. That is, identify aspects of your organization or initiative that make you an attractive partner for lenders. For example:

- Do you have the ability to provide outreach or referrals to assist lenders in getting new customers (e.g., from a particular immigrant or ethnic group)?

GENERAL OUTREACH FOR ACCESSING CRA RESOURCES

If you are unsure about how your organization may be able to benefit from the CRA activities of local lenders and do not have the resources to develop a detailed CRA plan, you may still be able to take advantage of CRA. General outreach strategies for community organizations or coalitions include the following:

- Write and circulate a newsletter article outlining the ways in which your agenda may be compatible with CRA.
- Develop relationships with CRA officers of area financial institutions. Meet with them to explain your agenda, solicit information on their CRA activities and interests, and ask for advice. Invite them to participate in events sponsored by your organization, such as speaking at a conference.
- Contact other community leaders and organizations that may have the resources to advocate for using CRA for community development initiatives in your policy area (e.g., child care or health care) and build partnerships with them.

- Is your project consistent with a lender's outstanding CRA commitment?
- Is there significant community support for your idea or initiative?
- Do you have the ability to provide positive or negative publicity for the lender?
- Are you a good business partner for the lender? Is your request for CRA resources appropriate for your financial situation and consistent with a strong fiscal plan? Do you have a strong managerial team and a sound business plan?

Conclusion

In summary, the Community Reinvestment Act and its challenge to lenders represents an important resource for those working to meet the needs of children, families and communities. The focus of projects funded through CRA resources has evolved dramatically over the last 25 years. Community leaders and organizations that act strategically can influence the future direction of CRA activity to help advance their initiatives specifically and a community's development agenda more generally.

Community leaders, policy makers, and program developers considering using CRA resources to help finance initiatives serving low- and moderate-income children and families need to remember that this is a long-term strategy. Understanding CRA regulations, developing relationships with lenders and developing viable CRA agreements are not short-term tasks with immediate results, especially for groups with little experience with CRA. However, the CRA can be very effective as one tool in an organization's overall financing strategy.

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Additional Information Resources

Tools for Accessing CRA Resources

California Reinvestment Committee, *Five Steps to Community Reinvestment Success*, San Francisco, 2001. Call (415) 864-3980 to order.

Comptroller of the Currency, Department of Treasury, *Effective Strategies for Community Development Finance: Community Development Resource Guide*, Washington, D.C., 2000. Visit http://www.occ.treas.gov/cdd/_strategy.pdf to order.

Federal Reserve Bank of Dallas, *A Banker's Quick Reference Guide to CRA*, Dallas, 1999. Available by calling the Community Affairs Office, (214) 922.5377.

Federal Reserve Bank of San Francisco Community Development website at http://www.frbsf.org/community/index.html.

National Community Reinvestment Coalition, *Advanced CRA Manual*, Washington, D.C., 2001. Visit www.ncrc.org.

National Community Reinvestment Coalition, *Beginner CRA Manual*, Washington, D.C., 2001. Visit www.ncrc.org.

Thomas, Kenneth H., *The CRA Handbook: Strategies for Banks, Communities and Regulators.* New York: McGraw-Hill Professional Publishing, 1998.

Other resources

The unified CRA regulation can be found on the websites of the financial regulatory agencies, for example at http://www.occ.treas.gov/cra/craindx.htm for that of the Office of the Comptroller of the Currency.

Dedman, Bill, et. al., "The Color of Money," The *Atlanta Journal and Constitution*, May 1-4, 1988. Dedman's Pulitzer Prize-winning series explored Atlanta's fair lending and CRA record in detail. His CRA website is at http://fairlending.com/cra.html#cra.

Haag, Susan White, *Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future*, Center on Urban and Metropolitan Policy, the Brookings Institution, Washington, March, 2000. Available at http://www.brook.edu/es/urban/haagexsum.htm. Haag's paper offers an extensive discussion of the evolution of CRA, and an exhaustive summary of related research documents.

The website of the Federal Financial Institutions Examination Council (FFIEC) provides an introduction and access to public CRA and HMDA data on lenders' loanmaking (by institution and by geographic area), lender CRA ratings and the text of recent exams at http://www.ffiec.gov/cra/publicdata.htm.

Litan, Robert E., Nicolas P. Retsinas, Eric Belsky, Gary Fauth, Paul Leonard and Maureen Kennedy, *The Community Reinvestment Act After Financial Modernization: A Final Report*, United States Department of the Treasury, Washington, 2001, available on the web at http://www.treas.gov/press/releases/docs/finalrpt.pdf. The appendices of this document include detailed metro-area comparisons of CRA mortgage and small business lending.

National Community Reinvestment Coalition, *CRA Commitments 1977-1999*, Washington, DC. This document outlines the wide range of substantive commitments secured by CRA activists across the country through negotiations with lenders.

Endnotes

1. For the purpose of the CRA, low- and moderate-income areas or households are defined as those with incomes below 80 percent of the area median.

2. In fact, the National Community Reinvestment Coalition (NCRC) has calculated that lending institutions have committed more than $1 trillion in resources and services to LMI households since the enactment of the CRA in 1977.

3. These are defined in the law as businesses or farms that meet the size eligibility standards of 13 CFR 121.802(a)(2) and (3) or have gross annual revenues of $1 million or less.

4. For an extensive discussion of the evolution of the CRA and an exhaustive summary of related research, see Susan White Haag, *Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future*, Center on Urban and Metropolitan Policy, the Brookings Institution, Washington, March, 2000, available at http://www.brook.edu/es/urban/haagexsum.htm.

5. National Community Reinvestment Coalition, *How to Use CRA*, p.1, located at http://www.ncrc.org/cra/how2usecra.html.

6. A recent Federal Reserve survey of the largest banks indicates that CRA-related lending is safe and sound. See http://www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey.

7. For more information on CRA regulators and examinations, see National Community Reinvestment Coalition, "How To Use CRA" located at http://www.ncrc.org/cra/how2usecra.html.

8. However, it is widely documented that CRA ratings are still largely subjective, and the range of activities for which lenders receive CRA credit is often dependent on the specific regulator. See *The CRA Handbook* by Ken Thomas for more information.

9. See NCRC's *Advanced CRA Manual* for greater detail.

10. In addition, as part of the 1995 CRA regulation revisions, lenders have the option of developing a "strategic plan" rather than be subject to an examination. A strategic plan may be up to five years in duration, but must: 1) be developed with community participation; 2) outline the lending, investment, and services that will be used to address community needs; and 3) explicitly set measurable goals for each year of the plan. The strategic plan must receive at least a 'satisfactory' rating from the lender's regulator to be a sufficient substitute for the examination.

11. For example, though not described in this brief, financial institutions can receive CRA credit for activities such as purchasing state authority bonds or investing in pre-development expense pools (in which costs for early phases of projects are borrowed from the pool and then reimbursed when long-term financing is secured.)

12. Though some lenders extend below-market loans, market-rate financing is the overwhelming focus of the CRA. Examples of unconventional terms/underwriting criteria include lengthened amortization periods, no-interest periods, low downpayment requirements, reduced fees or points, or special collateral provisions.

13. Disclosure and reporting requirements only apply to CRA agreements that followed explicit discussions of CRA ratings. To help determine whether disclosure and reporting under the Sunshine provision is necessary for your CRA commitment, see the Chicago CRA Coalition's *CRA Sunshine Regulations and You*, available at http://www.woodstockinst.org/sunshinefacts.pdf.

14. For more information on the CRA Sunshine provision, see the Woodstock Institute's *CRA Sunshine Rules and You*, available at http://www.woodstockinst.org/sunshinefacts.PDF.

15. See National Community Reinvestment Coalition, *Advanced CRA Manual*, 2001.

16. FHLB members can also access Community Investment Program (CIP) advances, which can be used to make loans at slightly below-market rates.

17. For more information on the eligibility of in-kind donations, see the *CRA Interagency Question & Answer* document at www.ffiec.gov/cra/doc/ffiec_qa01.doc.

18. EQ2 instruments were introduced in 1996, as a joint effort of National Community Capital Association, a member-association representing nonprofit lenders and community development financial institutions (CDFIs) and Citibank.

19 According to the CRA Interagency Questions and Answers, "If the institution makes an investment in the CDC that the CDC uses to make community development loans, the institution may receive consideration under the lending test for its pro-rata share of community development loans made by the CDC. Alternatively, the institution's investment may be considered under the investment test, assuming it is a qualified investment. In addition, an institution may elect to have part of its investment considered under the lending test and the remaining part under the investment test. If the investing institution opts to have a portion of its investment evaluated under the lending test by claiming a share of the CDC's community development loans, the amount of the investment considered under the investment test will be offset by that portion." To view, go to http://www.ffiec.gov/cra/qnadoc.htm.

20 See *Connecting Communities to Markets: The Equity Equivalent Investment, The Fannie Mae Foundation: Building Blocks,* Spring 2001, vol. 2, issue 1.

21. For example, the Low-Income Housing Tax Credit (LIHTC) now allows up to 10 percent of developments in distressed neighborhoods to be used for community services, such as child care, health care and workforce development. In addition, the New Markets Tax Credit (NMTC), enacted in 2000, will provide tax credits on $15 billion in investments in LMI communities over the next several years. For more information on these tax credits, go to www.hud.gov.

22 See, for instance, Michael A. Stegman, *Savings for the Poor: The Hidden Benefits of Electronic Banking,* Washington, D.C., Brookings Press, 1999.

The FINANCE PROJECT

About The Finance Project

The Finance Project is a non-profit policy research, technical assistance and information organization created to help improve results for children, families and communities nationwide. Its mission is to support decision making that produces and sustains good results by developing and disseminating information, knowledge, tools and technical assistance for improved policies, programs, and financing strategies. Its work is concentrated in several areas:

* **Financing issues and strategies** related to education, family and children's services and community building and development;
* **Results-based decision making,** including planning, budgeting, management and accountability;
* **Community supports and services** that reach across categorical boundaries and the public and private sectors to effectively link health care, education, family support, income security, economic development and neighborhood revitalization;
* **Improved governance and collaborative decision making;**
* Planning and implementation of **comprehensive welfare and workforce development reforms;** and
* Development of **Internet-based capacities** for sharing critical information on the design and implementation of effective policies and programs.

Established in 1994, The Finance Project is a valuable intellectual and technical resource to policy makers, program developers and community leaders, including state and local officials, foundation executives, academic researches, service providers and advocates who:

* **Seek creative ideas** for policies, programs and system reforms and effective policy tools to implement them;
* **Need information about what is occurring elsewhere,** how it is working and why; and
* **Want practical, hands-on assistance** to advance their reform agenda.

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The Finance Project's products and services span a broad continuum from general foundation knowledge about issues and strategies to customized resources and intensive, hands-on technical assistance. They encompass efforts to cumulate knowledge and build the field over time as well as time-sensitive projects to address immediate challenges and opportunities, including:

* **Knowledge development**—gathering, assembling and analyzing data from numerous sources to advance theory and practice.

* **Policy tool development**—developing tools and other "how to" materials to support the implementation of promising policies, practices and systems reforms, including financing strategies.
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This work is supported by national and regional foundations, federal and state agencies, and community-based organizations.

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